EXHIBIT 1
DATE 2.20.07
HB 598

STATES SHIFT GEARS

State lawmakers are exploring new ways to finance our nation's surface transportation system.

MATT SUNDEEN

Everyone wants transportation that is safe, reliable, efficient and predictable. But by almost every standard, the demands on our roads, bridges, railroad tracks and waterways, and the costs for maintaining and improving them, are accelerating too fast for states to cover with traditional funding resources. More people and more freight are traveling more miles in the United States than at any time in the past. And that makes transportation a necessary investment, say many state lawmakers.

"Investing in transportation is really about supporting your economy," says Oregon Senator Bruce Starr. "We've put $3 billion into transportation through legislative proposals. A lot of that was spent on cracked and failing bridges. But it could have cost us $130 billion to repair them later."

Transportation spending can also support local jobs and help stimulate economic activity. "Transportation investment is a key for the viability of our state," says Washington Senator Mary Margaret Haugen. "We went 13 years without major transportation funding in Washington. It was almost a disaster."

Clearly, transportation funding needs are growing. A report published by the National Chamber Foundation of the U.S. Chamber of Commerce projected that all levels of government would need to invest $271 billion per year in 2005 and $356 billion per year by 2015 to address the new challenges from population and travel growth, security concerns and other unanticipated costs.

But funds everywhere are tight and governments have less money to invest. The Foundation report predicts that by 2015, the cumulative national transportation funding shortfall—the amount spent versus the amount needed to maintain and improve the national surface transportation system—will exceed $1 trillion.

"Funds are drying up all over the country," says Representative Sherman Packard, Chair of New Hampshire's House Transportation Committee. "It is becoming a bigger issue," says Packard. "We need some sort of a change."

REPRESENTATIVE SHERMAN PACKARD NEW HAMPSHIRE

GAS TAXES IN DECLINE

Much of the transportation funding problem can be traced to the decline in motor fuel tax values against inflation. Motor fuel taxes are the primary source of transportation funding for the federal government and a significant revenue source for most states. Experts estimate that between 1996 and 2008, the real value of the federal gas tax—currently at 18.3 cents per gallon—will decline 26 percent. It's an effect mirrored in the states.

Because so many jurisdictions depend on fuel tax revenues for transportation, gas tax increases are the quickest method for raising transportation money. But soaring motor fuel prices make any gas tax increases a difficult sell. "The gas tax proposal in our state was shot down quickly," says Indiana State Senator Tom Wyss, chair of the Senate's Homeland Security, Utilities and Public Policy Committee. "Politically it just was not a good idea. So we needed to look elsewhere."

Overall, 14 states boosted motor fuel tax rates 19 times since 1997. Since 1992, however, only three—Missouri, Utah and Wyoming—have raised gas taxes sufficiently to keep pace with inflation.

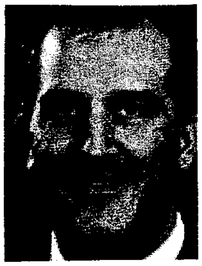
The good news is that there are alternatives, and increasingly state lawmakers are exploring these options.

LOOKING FOR MONEY

Across the nation, in states as diverse as

SENATOR MARY MARGARET HAUGEN WASHINGTON

Matt Sundeen is a transportation funding expert at NCSL. To learn more, read Surface Transportation Funding: Options for States by Matt Sundeen and Jim Reed. It can be ordered by calling (303) 364-7812.



SENATOR

BRUCE STARR

OREGON

SENATOR

TOM WYSS

INDIANA

Indiana, Oregon, Texas and Virginia, legislatures are considering, or in some cases have passed, legislation intended to provide innovative solutions for transportation funding shortfalls.

One option attracting interest is private investment. In 2005, Chicago officials signed a 99-year, $1.8 billion lease that grants a private company the right to operate and collect revenues from the Chicago Skyway toll road. The agreement provided upfront capital that the city could quickly invest in community programs, including transportation projects.

It's a controversial approach that's being closely monitored in legislatures across the country. This year, Indiana lawmakers authorized a similar $3.8 billion, 75-year lease to the same private company to operate the Indiana Toll Road. Other proposals have been considered in nearly a dozen states.

"One of the problems we faced, and every state will face, was that funding was obviously insufficient. This deal," says Indiana's Senator Wyss, "will put $3.8 billion in our pockets and allow us to do every project in our 10-year plan. No state in the nation can say that. Everyone wins in this solution."

Not everyone is in favor of privatization, however. Opponents argue that it is poor policy to cede control of a public asset with proven revenues to a private company. The Chicago and Indiana toll road lease agreements caused particular controversy because the winning bids in both cases were made by a foreign entity, the Australian-based Cintra-Macquarie Consortium. Some viewed the foreign investment, at a minimum, as a long-term economic concern and at worst a potential security threat. It's a charge that rankles Wyss. "Nobody complained when Toyota and Honda invested in Indiana," he says. "Why should they when it's a highway?"

Opponents also worry that privatization may not be a long-term solution. States own a limited number of marketable assets, and money made in the first year of a lease agreement is money that won't be available in year 50 or year 75. Additionally, the devil can be in the details of a public-private partnership agreement. Government officials may be unable to adapt to changing needs with a long-term contract. In California, for example, Orange County officials signed a $120 million contract with investors in the 1980s to build and operate express lanes in the

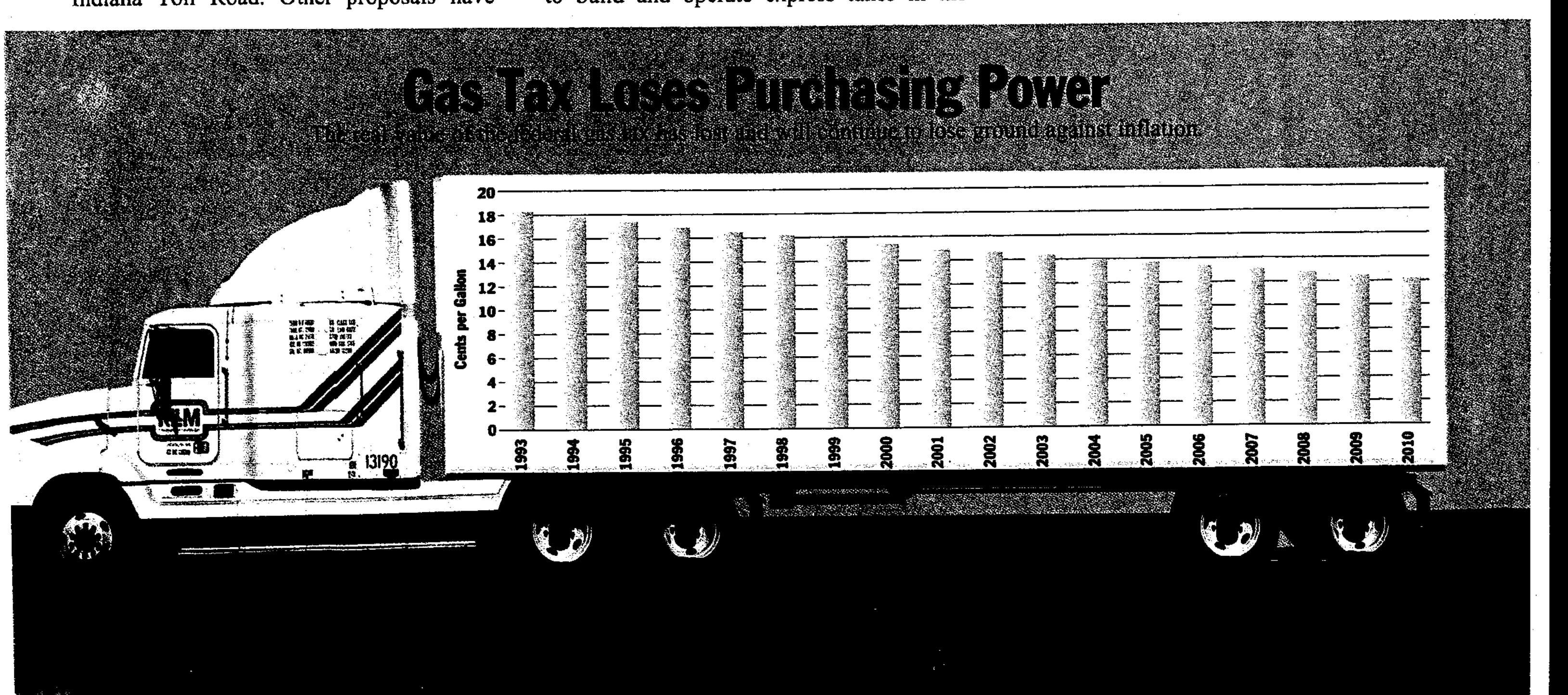
Oregon's Road User Fee Pilot Program

Volunteers in Oregon are testing the state's ability to replace the gas tax with a fee based on the miles they drive within the state. The Oregon Department of Transportation (ODOT) program is the result of recommendations made by a task force authorized by the legislature in 2001. Volunteers in the one-year pilot use global-positioning system devices in their vehicles to measure travel. They purchase gas at specific service stations in the Portland area where special gas pumps charge them a per mile fee instead of the state gas tax.

Supporters of the project see the fee as a more equitable transportation funding resource than the gas tax because it charges drivers equally for miles traveled on a road rather than for the amount of fuel consumed. Additionally, the mileage fee is thought to be less susceptible to inflation and would not require voter approval.

Opponents worry that the GPS systems will allow the government to essentially track where a driver is at all times, even though the ODOT says its program can't do that. Also, while a mileage fee may be good for transportation funding, it may diminish the incentive for drivers to purchase fuel-efficient, hybrid or alternatively fueled vehicles.

ODOT will use the results of the pilot project to draft model legislation for the legislature to consider in 2009.



median of Highway 91. The contract included a non-compete clause that prevented the county from making improvements to other area roads to meet rapid growth. The county eventually spent $207.5 million to buy back the lanes.

Although lease arrangements are attracting the bulk of the transportation funding publicity right now, they are not the only vehicle that states can use to attract private investment in transportation. Other public-private partnership laws allow the building of toll roads by private entities, authorize the sale of naming rights or concessions, or are otherwise designed to encourage private spending on transportation. Overall, statutes in at least 23 states endorse or authorize public-private partnerships.

OTHER ALTERNATIVES

States also are exploring options to raise more money. In the last five years, for example, state interest in tolling has grown. Toll revenues increased 36 percent, and 31 states now authorize or use toll lanes.

Additionally, states are exploring new tools for bidding, awarding and managing transportation projects that can speed up completion of the work, help leverage existing funding resources and ultimately save money. Thirty-two states now authorize design-build or design-build-maintain agreements that are intended to consolidate and streamline the bidding process. These agreements accept a single bid for both the design and construction of a project. They are different from traditional projects that require separate contracts for the design phase and the construction phase. It's an approach that's finding a receptive audience in legislatures.

"Design-build has made a huge difference," says Washington's Senator Haugen. "It increased the efficiency of our transportation projects and allowed them to come in on time and on budget or even under budget." Other procurement tools used by states include special purpose agencies, development agreements, warranties and tax increment financing.

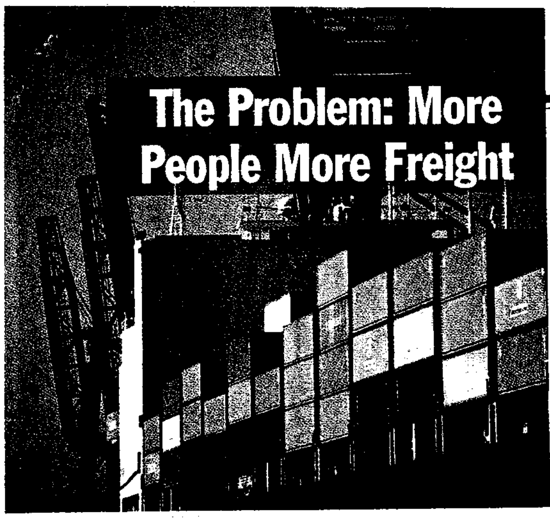
Lawmakers are now employing a larger portfolio of different bonds and financing methods for transportation. Bonds can allow states to pay for projects immediately but spread debt repayment costs out over time. But some states have struggled in recent years as debt service payments consumed a bigger portion of their highway trust funds. Outstanding state transportation debt grew more than 75 percent between 1998 and 2004. Nevertheless, 34 states now use bonds to finance transportation projects, up from 26 in 1998.

Recent federal transportation initiatives provide more opportunities for state toll projects and place greater emphasis on congestion pricing and other programs intended to increase fees on people who use roads and highways the most. Also, states now can be more creative in matching federal dollars for federal-aid transportation projects. Changes in laws allow states to match from a greater variety of funding resources—including private donations in some cases—and over different timeframes.

Another clear trend is that states are looking at new kinds of funding to replace the gas tax. An Oregon pilot program that has attracted much national attention charges motorists on actual vehicle miles traveled within the state. A 2005 report published by the Transportation Research Board noted that the road use metering and mileage fee approach in Oregon appeared to be "...the most promising technique for directly assessing road users for the cost of individual trips within a comprehensive fee scheme that will generate revenue to cover the costs of highway programs." According to some Oregon lawmakers, the VMT program has a lot of potential. "If you look forward, the gas tax is a dying source of revenue," says Senator Starr. "The goal for us was to find a tax that fairly represents the true use of the highways. We had to look at a funding mechanism that works for the entire state including populated areas and less populated areas."

THE MESSAGE: OPTIONS AVAILABLE

The funding methods used in Indiana, Oregon, Washington and elsewhere may not be a perfect fit for every state. But these examples provide potential good news in the otherwise gloomy transportation picture. The message? State lawmakers need not confine their thinking to traditional models. Options are available. Public-private partnerships, design-build agreements, vehicle miles taxes, tolls and congestion pricing may not replace gas taxes as states' primary transportation funding resource. But these tools and others can help states begin to address their needs, and that could be good news for all.



The Problem: More People More Freight

- Since 1990, vehicle miles traveled on the nation's highways have grown by 35 percent, and urban traffic is up 45 percent.
- Roughly $10 trillion worth of freight moves through the surface transportation network each year and increased trade with Asia and South America will double that volume by 2020.
- An estimated 18 percent of America's roads are in poor or mediocre condition and approximately 27 percent of bridges are structurally deficient or functionally obsolete.
- Nationally, traffic congestion costs an estimated $65 billion each year in wasted times and wasted fuel.
- Poor roadway conditions are a factor in approximately 30 percent of motor vehicle crashes, killing more than 12,000 people each year.
- Bad roads cost motorists as much as $54 billion each year for extra vehicle repairs.
- Rail traffic is expected to increase 49 percent and barge traffic by 15 percent over the next 10 years.
- The median age of locks in 1997 was 37 years; in 2003, 28 percent of transit and rail vehicles were 12 years old or older.
- It will cost $6 billion to make the nation's transit systems secure from possible terrorism.
- Katrina caused an estimated $35 billion in direct damage to transportation infrastructure and created strains in other states through the rerouting of freight shipments.
- The U.S. Chamber of Commerce projected that it would cost $222 billion in 2005 from all levels of government just to maintain the current condition of the nation's roads, bridges and transit infrastructure, and $295 billion per year by 2015.